

GAO

Testimony

Before the Committee on Small Business, House of
Representatives in Chicago, Illinois

For Release
on Delivery
Expected at
1 p.m. CDT
Wednesday
August 19, 1998

COMMUNITY DEVELOPMENT

The American Community Renewal Act of 1998

Statement of Stanley J. Czerwinski, Associate Director,
Housing and Community Development Issues,
Resources, Community, and Economic
Development Division



Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the targeting of community development benefits included in H.R. 3865, the American Community Renewal Act of 1998, as well as to share lessons learned from the early implementation of the community development program that created Empowerment Zones and Enterprise Communities. The bill we are discussing today, H.R. 3865, was introduced in the House of Representatives on May 14, 1998, and allows for the designation of 100 areas as “renewal” communities. These communities would receive incentives to increase jobs, form and expand small businesses, and increase educational opportunities and homeownership. To be eligible for designation as a renewal community, an area must meet economic distress criteria; specifically, its unemployment rate must be at least 150 percent of the national unemployment rate; its poverty rate must be at least 20 percent in each census tract; and, in urban areas, at least 70 percent of its households must have incomes below 80 percent of the median income of households within the local governmental jurisdiction.¹ Empowerment Zones and Enterprise Communities, authorized by the Omnibus Budget Reconciliation Act of 1993 and the Taxpayer Relief Act of 1997, seek to promote the revitalization of economically distressed areas.

In our statement today, we identify the number of census tracts that meet the economic distress criteria of H.R. 3865.² We also discuss the results of our prior report on six urban Empowerment Zones that described the program’s early implementation, including factors that participants believed may have either helped or hindered efforts to carry out the program.³ These lessons from the early implementation of the Empowerment Zone program may be useful when considering H.R. 3865.

In summary, we found the following:

- Out of nearly 59,000 census tracts nationwide, 4,323 meet the bill’s economic distress criteria, according to our analysis of 1990 census data. Of these distressed tracts, 1,354 are in rural areas; 2,535 in urban areas;

¹In addition to providing specific measures related to poverty, unemployment, and income, the bill requires that the area be one of “general distress.”

²We previously reported on the poverty and unemployment criteria included in H.R. 3865 and its predecessor, H.R. 1031, the American Community Renewal Act of 1997, introduced in the House of Representatives on Mar. 12, 1997. See Community Development: Information Related to H.R. 3865, the American Community Renewal Act of 1998 (GAO/T-RCED-98-196, May 19, 1998) and Community Development: Identification of Economically Distressed Areas (GAO/RCED-98-158R, May 12, 1998).

³Community Development: Status of Urban Empowerment Zones (GAO/RCED-97-21, Dec. 20, 1996).

and 434 in mixed urban/rural areas. Nineteen percent of these census tracts are located in an Empowerment Zone or Enterprise Community.

- More than half of the local, state, and federal officials involved in implementing the Empowerment Zone program who responded to a survey that we conducted in 1996 agreed on the factors that had either helped or hindered their efforts to implement the program. For example, they identified factors such as community representation within the governance structures and enhanced communication among stakeholders as helping the program's implementation. Similarly, preexisting relationships among Empowerment Zone stakeholders and pressure for quick results were identified as hindering the program's implementation.

Background

On May 14, 1998, H.R. 3865 was introduced in the House of Representatives to allow the Secretary of the Department of Housing and Urban Development (HUD) to designate up to 100 areas as renewal communities. For these communities, the bill seeks to increase the number of new jobs; form and expand small businesses; increase educational opportunities and homeownership; and foster moral renewal by providing federal tax incentives, regulatory reform, and homeownership incentives.

A renewal community under H.R. 3865 must have, among other things, an unemployment rate equal to at least 150 percent of the national unemployment rate and a poverty rate of at least 20 percent in each of its census tracts. Furthermore, in an urban area, at least 70 percent of the households must have incomes below 80 percent of the median income of households within the local governmental jurisdiction. In addition, H.R. 3865 provides that a renewal community be within the jurisdiction of a local government, have a continuous boundary, and meet population requirements.⁴

Empowerment Zones (EZ) and Enterprise Communities (EC), which also are designed to promote the revitalization of economically distressed areas, were authorized by the Omnibus Budget Reconciliation Act of 1993 and the Taxpayer Relief Act of 1997. To date, 105 communities, including both urban and rural areas, have been designated as either an EZ or EC.

⁴Population requirements are that the area have (1) at least 4,000 persons if any portion of the area is located within a Metropolitan Statistical Area with a population of at least 50,000 or (2) 1,000 persons in any other case. There is no population requirement if the area is entirely within an Indian reservation.

Number of Tracts That Meet the Economic Distress Criteria of H.R. 3865

To identify areas that could be part of a designated renewal community, we analyzed the most recent data (1990 Census) from the Census Bureau. Using these data, we identified census tracts⁵ that met the economic distress criteria of H.R. 3865. The Census Bureau defines census tracts as small, relatively permanent statistical subdivisions of counties.

The term “community” is not defined by the Census Bureau and can take many different forms. However, a community would most likely include more than one census tract. For example, the “community” that is participating in the EZ program in Atlanta includes 23 census tracts, and the participating “community” in a Chicago EZ includes 96 census tracts.⁶

As shown in table 1, we identified 4,323 census tracts throughout the country that meet the economic distress criteria of H.R. 3865 and categorized these tracts as rural, urban, or mixed. Using the Census Bureau’s data on whether persons lived in rural or urban areas, we defined a tract as rural if more than 80 percent of its residents were designated as rural. If more than 80 percent of its residents were designated as urban, we defined the tract as urban. We defined all other tracts as mixed.

Table 1: Number of Census Tracts in Total and Number of Census Tracts That Meet the Economic Distress Criteria of H.R. 3865

	Tracts in the nation ^a	Tracts meeting criteria
Rural	13,719	1,354
Urban	40,173	2,535
Mixed urban/rural	5,089	434
Total	58,981	4,323

^aWe included census tracts in the analysis if they had at least 50 households. Tracts with fewer than 50 households were not included—there were 2,277 such tracts.

Source: GAO’s analysis of 1990 census data.

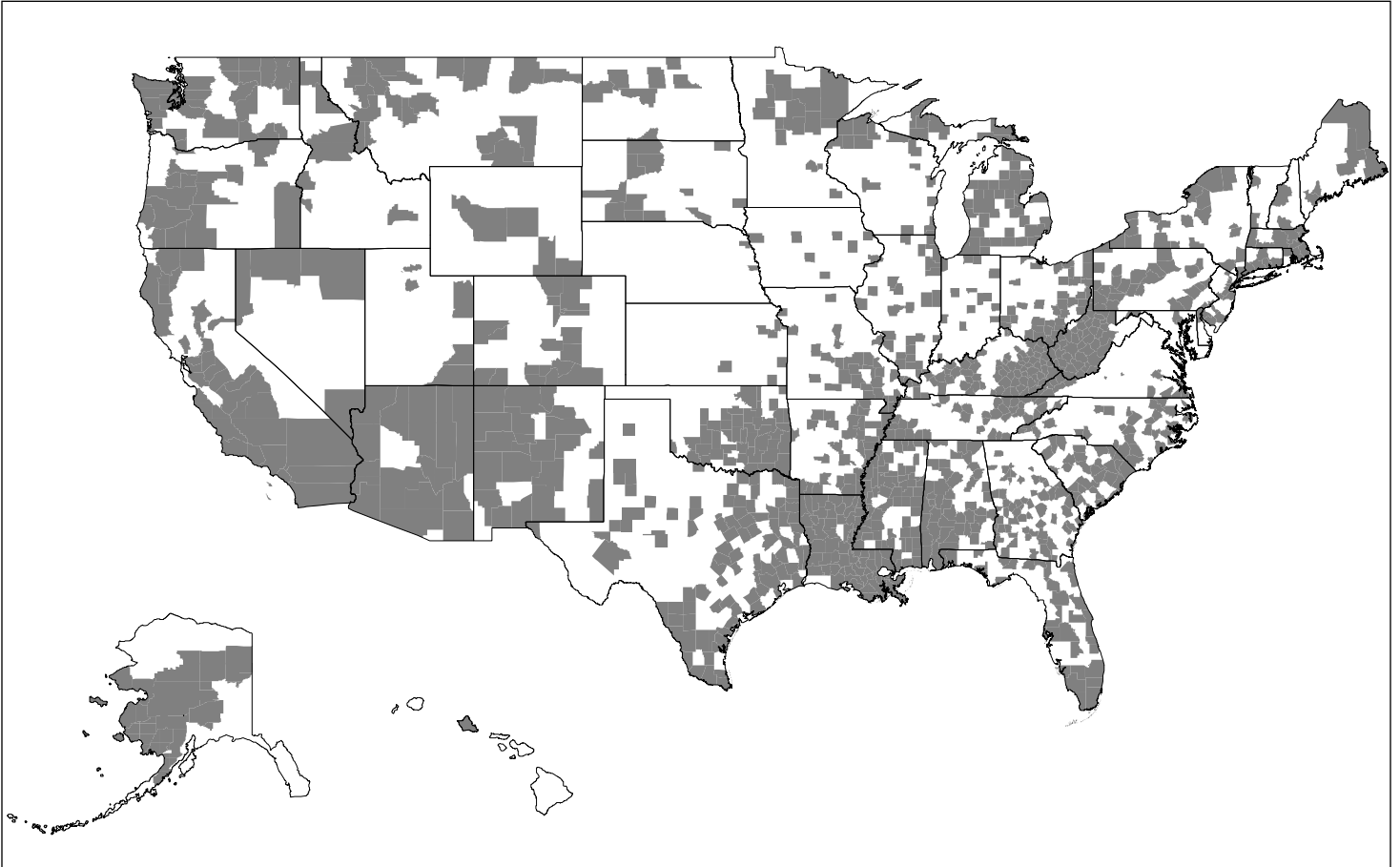
⁵We use the term “census tracts” to include census tracts, as well as Block Numbering Areas that are used by the Census Bureau for areas where census tracts have not been established.

⁶Under the EZ/EC program’s rules, a participating area must include whole census tracts. The use of census tracts rather than existing neighborhoods to draw EZ boundaries was identified as a factor hindering EZ planning and implementation efforts.

Geographic Dispersion of Tracts That Meet the Economic Distress Criteria of H.R. 3865

Tracts that meet the economic distress criteria of H.R. 3865 are located in the District of Columbia and all 50 states, including 1,140 counties (out of 3,141). Figure 1 shows the dispersion of eligible tracts among counties throughout the United States.

Figure 1: Counties With Census Tracts That Meet the Economic Distress Criteria of H.R. 3865



Note: White areas represent counties in which there were no census tracts that met the criteria.

Source: GAO's analysis of 1990 census data.

Lessons Learned From the Early Implementation of Empowerment Zones

Information we obtained from participants in the urban EZ program about factors that helped or hindered the program's planning and implementation are useful as "lessons learned" for future community development programs, such as the one proposed in H.R. 3865.

As part of our report on the status of urban EZs, we surveyed 32 federal, state, and local officials who were involved in planning and implementing the EZ/EC program and asked them to indicate the extent to which a broad set of factors had helped or hindered the program's implementation. Among those we surveyed were EZ directors and governance board members, state officials, contractors who provided day-to-day assistance to the EZs, and HUD and Department of Health and Human Services employees. While the survey respondents' views cannot be generalized to the entire EZ/EC program, they are useful in understanding how such a program can be improved.

In the 27 surveys that were returned to us, the following five factors were identified by more than half of the survey respondents as having helped them implement the EZ program:

- community representation on the EZ governance boards,
- enhanced communication among stakeholders,
- assistance from HUD's contractors (called generalists),⁷
- support from the city's mayor, and
- support from White House and Cabinet-level officials.

Similarly, the following six factors were frequently identified by survey respondents as having hindered their efforts to implement the EZ program:

- difficulty in selecting an appropriate governance board structure,
- the additional layer of bureaucracy created by the state government's involvement,
- preexisting relationships among EZ stakeholders,
- pressure for quick results from the media,
- the lack of federal funding for initial administrative activities, and
- pressure for quick results from the public and private sectors.

In closing, Mr. Chairman, our analysis shows that areas throughout the nation, both urban and rural, could be part of the "renewal communities"

⁷Generalists were private-sector community development specialists who acted as liaisons to specific communities within a geographical area. They provided the EZs and ECs with a single point of access to various types of technical assistance, provided information about federal programs and private-sector initiatives, and fostered community involvement in implementing strategic plans.

envisioned in the American Community Renewal Act of 1998. Some of these areas are also part of designated EZs or ECSs. In addition, our prior report on the EZ program⁸ shows lessons learned that may be applicable to the implementation of other community development programs.

Mr. Chairman, this concludes our prepared remarks. We will be pleased to respond to any questions that you or other Members of the Committee may have.

⁸GAO/RCED-97-21.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013**

or visit:

**Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

Orders may also be placed by calling (202) 512-6000 or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

<p>Bulk Rate Postage & Fees Paid GAO Permit No. G100</p>

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
